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SECOND ANNUAL REPORT
OF
THE PRESIDENT
OF THE
PHILIPPINES
TO THE
PRESIDENT AND THE CONGRESS
OF THE UNITED STATES
COVERING THE PERIOD
JANUARY 1 TO DECEMBER 31, 1937

SECOND ANNUAL REPORT
OF
THE PRESIDENT
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PHILIPPINES
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PRESIDENT AND THE CONGRESS
OF THE UNITED STATES
COVERING THE CALENDAR YEAR
ENDED DECEMBER 31, 1937



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TABLE OF CONTENTS

	Page
Relations with the High Commissioner.....	1
General conditions.....	1
National economy.....	2
Public finance.....	4
Provincial, city, and municipal finances.....	5
Government-owned corporations.....	5
Overseas trade.....	8
Mining.....	8
National defense.....	8
Public instruction.....	10
Administration of justice.....	13
Labor and social justice.....	14
Public works.....	15
Civil service.....	15
Legislation.....	16
National relief.....	16
Institute of National Language.....	17
Elections.....	17
Woman suffrage.....	18
Census commission.....	18
Immigration and emigration.....	18
Visit to the United States.....	18
Philippine-American trade conference.....	19
Conclusion.....	19
Appendixes.....	21
Appendix I. Financial operation of the Commonwealth government during the fiscal year 1937.....	21
Appendix II. Expenditures by functional purposes.....	22
Appendix III. Statement of total assets, liabilities, and surplus, all funds.....	23
Appendix IV. Public debt.....	23
Appendix V. Currency circulation.....	24
Appendix VI. Government-owned corporations.....	25
Appendix VII (a). List of the more important measures passed at the second regular session and special session of the national assembly.....	25
Appendix VII (b). List of the more important executive orders issued by the President of the Philippines.....	26
Appendix VIII. Overseas trade during the period under review.....	26



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MESSAGE FROM THE PRESIDENT

To the Congress of the United States:

As required by paragraph (3) of section 7 of the act of Congress approved March 24, 1934, entitled "An act to provide for the complete independence of the Philippine Islands, to provide for the adoption of a constitution and a form of government for the Philippine Islands, and for other purposes," I transmit herewith, for the information of the Congress, the second annual report of the President of the Philippines to the President and the Congress of the United States covering the calendar year ended December 31, 1937.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE,
January 9, 1939.

ANNUAL REPORT OF THE PRESIDENT OF THE COMMONWEALTH OF THE PHILIPPINES FOR THE YEAR 1937

MALACAÑAN PALACE, MANILA, *June 21, 1938.*

THE PRESIDENT AND THE CONGRESS
OF THE UNITED STATES,
Washington, D. C.

SIRS: Complying with the provisions of section 7 of the act of Congress of March 24, 1934, Public, No. 127, known as the Tydings-McDuffie law, which provisions are embodied in the ordinance appended to the Constitution of the Philippines, section 1, paragraph 20, I have the honor to submit my annual report of the proceedings and operations of the Government of the Commonwealth of the Philippines for the year 1937.

RELATIONS WITH THE HIGH COMMISSIONER

The first United States High Commissioner, the Honorable Frank Murphy, resigned on December 31, 1936, and was succeeded by Hon. Paul V. McNutt. The new High Commissioner arrived in the Philippines and assumed the duties of his office on April 27, 1937. The cordial relations existing between this government and the High Commissioner's office have continued and have been placed on a permanent basis. A frank and friendly understanding that is mutually conducive to the satisfactory conduct of business between the two governments has been established. I desire to record here my appreciation of the sympathetic and helpful attitude of High Commissioner McNutt toward the problems of the Commonwealth government.

GENERAL CONDITIONS

The year 1937 was marked by satisfactory progress along many lines. General health conditions were good, and although the islands were visited by two destructive typhoons, the relief measures promptly taken prevented the appearance of epidemic diseases and alleviated in a large measure the hardships and distress of the people of the stricken areas.

Educational opportunities were further extended, and the children in the schools now number nearly one and a half millions. Under a new law providing means for adult education, more than 500 committees were organized with a membership of nearly 5,000, and 164 civilian adult schools with over 10,000 pupils were established.

Peace and contentment prevailed. Only in a small area in the Province of Lanao, island of Mindanao, there was a small band of outlaws for the capture of which it became necessary to use the Constabulary.

Finances are sound and stable with the greatest accumulated surplus of funds in the history of the islands, this being largely due to the

receipt from the Treasury of the United States of accumulated taxes on coconut oil. Trade continued to expand and reached a volume considerably in excess of 1936, as regards both imports and exports.

Agricultural production showed an increase over 1936.

NATIONAL ECONOMY

In furtherance of plans for economic adjustment and development to meet the national needs, several steps were taken toward objectives which have been approved by the National Economic Council.

The National Power Corporation, created on November 3, 1936, upon approval of Commonwealth Act No. 120, "for the purpose of undertaking the development of hydroelectric power and the production of power from other sources and for other purposes," was organized early in January 1937. The corporation has made preliminary reconnaissances, surveys, and other technical investigations, including the compilation of hydrographic and hydrologic data, of nine rivers in eight provinces and the installation of a Diesel power plant for the port area of Manila. The work has included topographic surveys, foundation investigations, comparative studies on costs of fuel and water-generated power, plans, and estimates, and a power market study.

In pursuance of its industrialization program, the government continued studies of industrial projects with a view to establishing such projects on a commercial scale. As a result of these studies, the National Development Co. has taken the first steps to establish a packing plant and a can factory to meet the requirements of the fishing industry.

A soil survey of the Philippines is now in progress in order to establish a more scientific basis for a national agricultural program.

In order to assist home seekers in Mindanao and Sulu in the selection of settlement sites best adapted to the kind of agriculture in which they are proficient, a study of the adaptability of home seekers to those regions and the suitability of the soil to their particular agricultural needs has been undertaken.

New rules and regulations were promulgated governing the acquisition of public lands, forest concessions, leases, license agreements, fishpond permits, fishing boat licenses, mining and oil concessions in Mindanao and Sulu.

The National Produce Exchange, established this year by Commonwealth Act. No. 192 to provide an organized central market for local agricultural products is directing its efforts to improving the system of marketing these products.

Taxation.—The present administration is committed to a revision of the Philippine tax system with a view to insuring a more equitable distribution of the burden of taxation. It is the aim of the government to develop fixed revenues adequate for normal increasing requirements. The amount required, if distributed in accordance with the principle of ability to pay, will not be burdensome. The general revision of taxes is now under study and new bills have been drafted for presentation to the National Assembly.

Nine laws providing for increases in certain specific taxes were enacted in 1936 and listed in my last report. These laws provided a substantial increase in the revenues for 1937. Taxes were increased on inheritances; incomes; refined mineral oils and other motor fuels;

automobiles, trucks, and other vehicles; gross receipts of theaters, cinematographs, concert halls, cabarets, race tracks, and other places of amusement; fermented liquors; the gross output of mines; and on dealers in leaf tobacco. The taxes received from the above sources in 1937 exceed those received from the same sources in 1936 by nearly ₱20,000,000.*

On the other hand Commonwealth Act No. 238, approved November 15, 1937, abolished the cedula tax upon which the provinces, municipalities, and cities had depended as a source of revenue. To replace losses in revenue suffered by these subordinate units through abolition of the cedula tax, Commonwealth Act 241, approved December 9, 1937, made an appropriation of ₱5,000,000 from funds of the Commonwealth government.

The cedula tax existed during the Spanish regime and was continued under American jurisdiction. In the deliberations of the constitutional convention, there were clear indications of the desire to abolish this tax by means of a constitutional provision. It is a tax that bears directly upon those who can least afford it, and is, therefore, contrary to sound principles of taxation.

Coconut-oil tax.—Revenue received from the coconut-oil tax collected in the United States under section 602½ of the Revenue Act of 1934 is not placed in the category of regular budgetary incomes. The policy is that expenditures therefrom shall be for special non-recurring purposes as authorized by the National Assembly.

It is proposed that this income shall be largely devoted to projects that will further the government's program for meeting economic and social problems. The following quotation from my message of October 18, 1937, to the National Assembly indicates the policy of the government in this connection:

The promotion of social justice by the State is a clear and categorical mandate of our Constitution. Our platform, the platform upon which you and I have been elected, imposes upon us the high duty of enacting measures that will improve the living conditions of the laborer and of carrying these measures into effect. We must see that laws are enacted which will leave no loopholes that may be used to defeat the ends of justice. We must rely for the security of this new nation, not so much upon the might of brutal force but upon the undivided loyalty of every citizen to the government—a loyalty founded upon individual consciousness that this government is his and that it exists only for his protection, for his liberty, and for his happiness.

Both the Department of Justice and the Department of Labor are ready to help you in the preparation of the measures that are required to fill the gap that may be found in our existing legislation for the purpose of correcting prevailing social evils and of carrying into effect the provisions of the Constitution as well as the commitments in our platform.

THE PROCEEDS OF THE EXCISE TAX ON OIL

Fortunately for us a new source of income has come to our hands that will facilitate the carrying out of our program of social justice and economic readjustment. From the proceeds of the excise tax on oil there has been accumulated up to the end of June 1937 the sum of ₱95,507,227.30 in the Federal Treasury, the transfer of which amount to the Treasury of the Philippines I had secured before I left America on my last trip. This sum is now available for appropriation, the understanding with the Treasury Department of the United States being that out of that fund ₱10,000,000 will be available upon 30 days' notice and the balance upon 90 days' notice.

The final decision as to how this fund shall be spent is, of course, yours. But in the exercise of my constitutional prerogative I shall take the liberty of making some suggestions regarding the purposes for which this money should be spent.

* The Philippine peso equals 50 cents United States currency.

The first thing that we must bear in mind is that this fund does not constitute an ordinary income of the government upon which we may depend for recurring obligations. When independence shall have been granted, this source of our income will cease. Were we to defray from this fund services that we cannot maintain once this income is terminated, we would have thrown away the money thus spent. We must, therefore, limit the use of this fund for what might be termed capital investments or for self-supporting enterprises. Above all, we should use this fund for national objectives, for purposes where the greatest good may be derived by the Filipino people.

Concretely, I recommend that this fund be devoted to the following purposes:

1. To improve the sanitary condition of centers of population by constructing water systems or artesian wells.

2. For combating malaria where there is assurance that it can be done at a reasonable expense.

3. For the prevention of tuberculosis and the establishment of more sanatoriums, as it is well known the white plague is the worst scourge afflicting our race.

4. For the building of new leprosariums which will permit lepers in the early stage of their disease to be treated where they may be easily reached by their families, thus making their isolation less tragic.

5. For extending free dispensary service to the poor not only in centers of population but also in outlying barrios and communities.

6. For the building of public schools in every barrio where there is a sufficient number of children justifying the opening of the school.

* * * * *

7. For opening national highways and helping in the construction of provincial and even barrio roads whenever the respective provinces and municipalities pledge themselves to maintain the roads thus constructed, and in the case of barrio roads, where the volume of traffic on said roads also justifies their construction.

8. For the construction of office buildings for the national government so as to reduce, if not eliminate, the continuous expense in rents.

9. For the purchase of large landed estates and their resale in small lots to the actual occupants thereof.

* * * * *

10. For the development of water power, the reforestation of denuded areas, the colonization and development of Mindanao; and

11. For the financing of a long-range program of economic adjustments necessary to prepare the country for the new situation attending the grant of our independence, including the establishment of new industries which at the same time will give work to the unemployed.

PUBLIC FINANCE

The total revenues of the Commonwealth government for 1937 amounted to ₱230,800,026.87. This amount includes ₱113,827,828.20 representing the proceeds from the coconut oil tax collected in the United States under section 602½ of the Revenue Act of 1934 and transferred to the Commonwealth government in 1937. The remaining ₱116,974,198.67 represents revenues from the usual sources as compared with a total of ₱103,502,237.61 for the year 1936, or a net increase of ₱13,471,961.07.

The total expenditures for the year amounted to ₱113,889,971.42, thus leaving a net gain of normal income over expenditures of ₱3,084,227.25. The total excess of income over expenditures including the amount received from the coconut-oil tax was ₱116,910,055.47.

The large increase in the regular income was due largely to additional revenues accruing under new tax laws enacted in 1936 to which reference is made in my last report.

At the end of the year the total banking resources of the Philippines amounted to ₱378,000,000 as compared with ₱361,000,000 for 1936 and exceeds that of any previous year in Philippine banking.

PROVINCIAL, CITY, AND MUNICIPAL FINANCES

The 49 provinces of the Philippines, taken altogether, netted a total income of ₱30,556,327.48 for the year 1937, or ₱2,052,562.82 more than that for 1936. The total expenditures by the provinces for the year under review amounted to ₱30,586,508.84 or an increase of ₱4,864,493.01 over that for 1936. Except for the provinces of Batangas, Bulacan, Cagayan, Cavite, Cebu, Cotabato, Davao, Iloilo, Oriental Negros, Pampanga, and Zamboanga, which incurred small deficits, all the provinces registered favorable balances during the year 1937. The net fund balance for all provinces in 1937 was ₱2,630,539.15.

Manila registered an income of ₱10,040,365.07 for 1937 or an increase of ₱518,007.77 over that for 1936. Baguio, which likewise made a slight increase in its finances, had a total income of ₱1,485,743.92 for the year under review, or an increase of ₱462,267.85, compared with that for the previous year. The new chartered cities realized incomes as follows: Cebu, ₱1,221,175.29; Davao, ₱757,764.88; Iloilo, ₱707,381.63; and Zamboanga, ₱629,883.21.

The municipalities and municipal districts in general have shown an improvement in their financial conditions during 1937.

GOVERNMENT-OWNED CORPORATIONS

The Philippine National Bank.—During the year 1937, the Philippine National Bank made a net profit of ₱3,197,852.77; of this amount, ₱820,010.00 consists of recoveries of charged-off assets and ₱58,113.49 of adjustments of prior periods, so that the total net operating profit of the bank amounted to ₱2,319,729.28, which is more than double the net operating profit of the bank in the year 1935, at the end of which the Commonwealth government was inaugurated. In accordance with the provisions of the Rehabilitation Act, 75 percent of the net profit for the year was paid to the government and 25 percent thereof became part of the bank's surplus, so that on December 31, 1937, the bank's surplus amounted to ₱9,858,067.22, which, together with its capital and reserves, makes the present net worth of the bank ₱26,561,556.54, as against ₱25,744,010.44 on December 31, 1936, or an increase of ₱817,546.10.

It is gratifying to note that whereas in previous years the recoveries from charged-off assets have always formed the major part of the yearly profits of the bank, during the year 1937, such recoveries hardly amounted to 28 percent of the total net profit during the period. A comparative statement of the net operating profit of the bank, exclusive of recoveries, during the years 1935, 1936, and 1937 shows the marked progress attained by the bank in its strictly banking operations:

Operating net profit

Year	Amount	Percent
1935.....	₱1,052,999.07	100
1936.....	1,700,461.52	161
1937.....	2,319,729.28	220

The total deposits in the bank on December 31, 1937, amounted to ₱115,888,753.25 as against ₱102,038,337.75 on December 31,

1936, and its total resources increased from ₱141,955,210.95 in 1936 to ₱156,496,328.90 in 1937, or an increase of ₱14,541,117.95, out of a total increase of ₱17,000,000 in the total resources of banks in the whole Philippines.

It is to be noted that during the year 1937 the board of directors was composed wholly of officials of the Philippine government, a new policy which I am adopting for government-owned enterprises.

The Manila Railroad Co.—The operations of this government-owned corporation in 1937 showed a very gratifying improvement over the preceding year, total railway operating revenues of ₱8,476,800.27 being an increase of ₱1,408,361.29, or 19.92 percent, over 1936 revenues, whereas total railway operating expenses of ₱6,127,312.02 only increased by ₱151,104.81, or 2.53 percent. The operating ratio was accordingly reduced from 84.55 percent in 1936 to 72.28 percent in 1937. In addition to railway operations, miscellaneous operations (highway motor transportation, etc.) produced a net income of ₱508,678.65 in 1937, or practically double the net income from these sources in 1936. The rate of return on railway property investment was 2.22 percent as compared with 1.01 percent in 1936 and seven-tenths of 1 percent in 1935. The net income of ₱944,418.97 is an improvement of ₱1,649,295.13 as compared with the net loss of ₱704,876.18 shown in 1936.

The important railway construction project of connecting the main line south with the previously isolated line in the Bicol Provinces was practically completed in 1937. This work had been carried on intermittently ever since 1928. Owing to lack of funds, construction had been stopped in August 1933, at which time there only remained about 40 kilometers of railroad line to build in order to entirely close the gap, and no additional construction was accomplished for a period of almost 3 years. However, in May 1936 arrangements were effected to finance the work through the subscription on the part of the Commonwealth government to additional capital stock of the railroad company in the amount of ₱1,000,000. By utilizing rails, bridges, and other materials from sections of unremunerative branch lines that had been authorized to be abandoned, the cash outlay involved was reduced to that amount. The work was practically completed in 1937, the last rail being laid on November 17. Regular through passenger and freight service from Manila to Legaspi was started on January 31, 1938.

The Manila Hotel Co.—The total revenues of the Manila Hotel for the year under review amounted to ₱1,272,182.82. Its expenses for the same period amounted to ₱995,265.86, resulting in a total net profit of ₱276,916.96, representing an increase of 45.49 percent over that of 1936.

The National Development Co.—The National Development Co. has been converted from a private corporation to a public concern. It continued its studies on the establishment of plants for the packing of fish, meat, vegetables, fruits, and other foodstuffs. On December 30, 1937, the company organized the National Food Products Corporation, with a capital stock of ₱2,500,000. During the year under review, it subscribed to and paid for the remaining ₱2,000,000 worth of shares of stock of the National Rice & Corn Corporation. Other activities taken up by the company during the year, with a view to launching the industrialization program of the Philippines on a major

scale, were the survey for an electric railway line in Mindanao, investigation of Philippine coal deposits, test for smelting purposes of the Surigao iron ore, study of the establishment of a textile spinning plant, the establishment of an abaca central, the establishment of a pulp and paper factory, rayon industry, and the manufacture of clay-asbestos shingles.

The Cebu Portland Cement Co.—The net profit of the company, a subsidiary of the National Development Co., for the year 1937 amounted to ₱577,029.88 as against ₱524,739.24 for 1936, or an increase of ₱52,290.64. Its total assets at the end of the year totaled ₱5,466,488.73 as against ₱5,224,046.76 for the year 1936, or an increase of ₱242,441.97.

The National Rice & Corn Corporation.—The National Rice & Corn Corporation, a subsidiary of the National Development Co., performed its functions satisfactorily in 1937, in spite of an abundant crop which made it unnecessary to import large quantities of rice from abroad as it did in 1936. Reasonable prices were assured to the producers and consumers alike through the operation of the corporation. A minimum price of paddy, sufficient to cover production cost plus a fair margin of profit, was guaranteed to the producer, while the available stocks purchased and on hand at the beginning of the year served as a stabilizing factor and assured the consumer a steady supply of rice at a reasonable price. Price fluctuations during the year were confined to very narrow limits, a condition highly advantageous to both producers and consumers. With the trade, however, adequately supplied in view of the good harvest, sales of the corporation rice were limited and the profits realized thereon were correspondingly small and insufficient to cover the year's operating expenses. This accounts for the small loss of ₱16,910.94 at the end of the year, which is considered highly satisfactory, taking into account the beneficial services rendered by the corporation to both producers and consumers.

Rice is the most important single food of the people. The average normal consumption requirement of the country is 3,129,000,000 pounds a year, while the average yield is 3,127,000,000 pounds a year. In 1937 the home production exceeded consumption by a fair margin of about 131,000,000 pounds, a portion of which is in the hands of the National Rice & Corn Corporation being held in reserve for any possible emergency. It is the policy of the corporation to keep the surplus in any abundant crop year in reserve for the purpose of supplying any shortage in succeeding years and thus maintain the level of the price of rice within the buying power of the people.

The Metropolitan Water District.—The total income of the Metropolitan Water District for 1937 amounted to ₱2,336,502, and the total expenditures to ₱1,494,782.07, thus showing a profit of ₱841,719.93, the biggest ever made by it since its organization. Of this amount, ₱836,811.40 was reinvested to meet payments for the sinking fund of the bonded indebtedness and to improve and extend facilities in order that the district may be of greater service to the concessionaires, thus leaving only ₱4,906.53 which went to the surplus.

During the year under review, ₱4,000,000.00 worth of bonds issued under Act No. 1323, representing part of the ₱8,000,000 bonded indebtedness transferred from the Manila sewer waterworks system, were redeemed by the district. The balance of ₱2,000,000 of this issue was redeemed on January 2, 1938. On the other hand, another

block of bonds issued under Act 3255, with a total par value of ₱500,000 was sold on April 1, 1937, at a total premium of ₱49,705.50. The net worth of the district as of December 31, 1937, amounted to ₱15,787,879.03.

OVERSEAS TRADE

The total overseas trade, the highest of record since 1929, amounted to ₱520,583,990, excluding gold, this being an increase of 9.6 percent over the 1936 figure of ₱475,148,544. Shipments to the United States were 12 percent greater than in 1936 and made up almost 80 percent of the total exports. The value of sugar shipments to the United States declined somewhat due to lower prices, although the volume was about the same. A larger proportion of the copra exports went to the United States than in the preceding year due to the favorable differential enjoyed by Philippine copra over foreign copra in the processing tax on coconut oil manufactured in the United States. The value of copra shipments due to better prices was greater than in 1936, although the volume was considerably less.

Imports amounted to ₱218,051,490, or 7.8 percent increase over 1936, a notable increase being in iron and steel, machinery and cotton cloth. There was a marked increase in cotton textiles purchased from the United States and also of cotton cloth from Japan.

The visible balance of trade in favor of the Philippines exceeded all previous records and amounted to ₱84,481,010. Including gold exports, this favorable balance aggregated about ₱115,000,000. As in previous years, this was entirely due to a heavy favorable balance in the trade with the United States, except for small balances of ₱7,244,919 with Great Britain, ₱1,658,680 with Italy, and ₱1,227,112 with Denmark. There was an unfavorable balance totaling ₱43,747,390 principally with Germany, Netherlands, Canada, Switzerland, Japan, China, Australia, Netherlands Indies, British East Indies, French East Indies, Siam, and other countries.

MINING

The gold production amounted to ₱51,253,821 as compared with ₱44,394,552 for 1936, or an increase of ₱6,859,269. Despite the setback caused to the mining industry by speculative activities resulting in the stock mining crash in 1936, referred to in my last report, it is expected that mining will continue to be one of the most important industries in the Philippines, and, as regards value of production, it now ranks in third place, being exceeded by sugar and coconut products only. All shipments of gold and gold ores go to the United States. Among other minerals being developed, iron ore is finding its principal market in Japan. During the year there was shipped to Japan about 700,000 tons of iron ore. Chromite is also being mined, the output of this ore being shipped to the United States.

NATIONAL DEFENSE

At the beginning of the year, 20,000 young men comprising the first class selected for military training under the provisions of the National Defense Act, reported to military stations for instruction. This event symbolized attainment of the basic objective toward which all the preparatory work of 1936 had been directed. While construction of barracks and quarters had not been entirely completed and the pro-

professional qualifications of instructional groupments still left much to be desired, yet the actual initiation of citizen training established a definite milestone in progress toward the development of adequate national security.

For the year 1937, training cadres were, with few exceptions, organized as infantry units. The exceptions were artillery organizations at Camp Dau, and engineer, medical, signal, and quartermaster units at Camp McKinley, at which places training was conducted under the direct supervision of personnel of the United States Army. At every station throughout the islands, each succeeding month witnessed a general improvement in training and administrative efficiency, marked by enthusiasm on the part of trainees and devotion to duty on the part of instructors.

At the end of June the members of the first 20,000 trainees received their assignments to reserve units and were replaced in the cadres by another class. This was repeated at the end of December, the whole representing a typical training year under the defense plan. The product of each year's training camps yields the equivalent of three infantry divisions, supplemented by such reserve, auxiliary, and labor elements as are required to support this number of tactical units.

Beneficial byproducts of trainee instruction proved equal to anticipations. Statistics show that the average trainee was greatly improved in health and physique, while in every case he absorbed new conceptions of sanitation, citizenship, organizational discipline, and team work. In many cases, illiterates gained the rudiments of elementary education, while vocational instruction, particularly in agriculture, was productive of splendid results. Within this single year the national benefits of a nonmilitary nature to be derived from the adopted system of military training were clearly demonstrated. However, the principal objective of the plan, in which is found the only true measure of its ultimate worth, is its effectiveness in providing to the country maximum security against aggression and violence. By this standard the developments of the past year served only to confirm the government's early convictions as to the soundness and appropriateness of the adopted plan.

By the end of the year, all training cadres were operating at satisfactory capacity. From them there were gradually evolving in every province and barrio of the islands, nuclei of military units, each to be additionally trained in each succeeding year for the defense of its home area. Regular troops, which, aside from Constabulary elements, are as yet mainly concentrated at Camp Murphy just outside Manila, made great strides during 1937 toward attaining satisfactory standards of efficiency. A staff school was established in Baguio, and the schools for candidates for reserve commission, in San Miguel, Tarlac, and Camp Keithley, Lanao, respectively. Progress in the Military Academy was particularly gratifying. This school, established only 2 years ago after the West Point pattern, is rapidly earning a reputation as a training center of outstanding excellence.

The higher staff of the Army showed a constantly improving technique in the handling of major problems, and the supply system was revised and overhauled to conform more closely to the needs of the expanding organization.

Air Corps progress was maintained according to plan, and near the close of the year the first class of pilots trained exclusively at the

Philippine Army Aviation School was graduated at Camp Murphy. Additional planes were acquired, the flying field and auxiliary facilities were improved, and assistant flying instructors were developed from among Filipino pilots. This institution is now ready to begin functioning at scheduled capacity. Air Corps instruction continues to emphasize quality above quantity, but experience to date furnishes ample evidence that the adopted program will assure the availability, at the required time and in required numbers, of Filipino pilots of real aptitude and skill.

Many problems remain to be solved. The number of properly trained officers available for the multitude of important posts is deficient. Due to unexpected obstacles, the development of the marine elements of shore defenses has lagged. The acquisition of reserve equipment and supplies has had to await completion of the construction program, to which a large proportion of available revenues has necessarily been devoted during the first year of the project.

Taken as a whole, the accomplishments of the first 2 years of the Commonwealth government in developing a reasonable local security for the Philippine Islands give bright promise of eventual success in this vitally necessary undertaking.

PUBLIC INSTRUCTION

Education.—For the first time in many years the Bureau of Education was not confronted at the opening of schools in June 1937 with a shortage of funds for the continuance of all the elementary classes that were in operation at the end of the previous school year in March 1937. Although the emergency national aid of ₱1,100,000 made available in 1936 had not been renewed, the lack of this aid was more than made up by the income from the cedula tax collections, half of which accrued to the municipal school funds in accordance with the provisions of Commonwealth Act No. 124.

There was, however, a strong demand for the opening of new classes in which to accommodate a large number of children of elementary school age all over the Philippines who were clamoring for admission in the public schools. To provide for these new classes, the National Assembly passed Commonwealth Act No. 234 appropriating ₱1,200,000. This sum was not sufficient, and the undistributed amount of ₱245,711.50 from the equalization fund of the Bureau of Education was utilized to open additional new classes, thereby making available a total of ₱1,445,711.50 for extension classes. This aid enabled the Bureau of Education to organize 2,823 new classes and to appoint 2,826 teachers which provided for a total enrollment of 153,600 new pupils. In addition to the above, 803 new classes accommodating 43,362 children were opened from municipal funds.

In 1937 there were 8,913 public schools which had an annual enrollment of 1,459,743 children taught by 32,485 teachers. The enrollment in September 1937 in the elementary grades was 1,391,756 as compared to 1,173,879 for the same month in 1936, which was an increase of 217,877 over that of 1936. There was also an increase in the number of students in the secondary schools, the enrollment being 56,861 in September 1936, as compared to 65,266 in September 1937.

In keeping with the constitutional provision which states that "all schools shall aim to develop moral character, personal discipline, civic conscience, and vocational efficiency," greater emphasis has been

placed on training in character and citizenship. To this end, courses of study in character education and citizenship training for the primary and intermediate grades have been prepared. A similar course of study for use in high schools is under preparation.

The major problems affecting public education which were taken up during 1937 were concerned with compulsory education, revision of the school curricula, reorganization of teacher-training institutions, and military instruction.

The Constitution of the Philippines provides that the government shall provide at least free public primary instruction. This provision is clearly a recognition of the importance of education both to the individual and to the state. To make free public primary education a reality, it is planned to provide within the next school year, beginning June 1938, the facilities necessary to accommodate all children of primary school age who may seek admission in the schools and to enable such children to complete at least the primary grades. It is also planned to put into effect not later than June 1940 a system of compulsory primary education. A law on compulsory primary education is deemed necessary to lengthen the time that the average child remains in school and thus enable him to receive a more adequate training for citizenship.

It is likewise planned to fix the responsibility for the support of the primary and of the intermediate schools. In view of the constitutional provision which guarantees free public primary education, it is planned to have the national government assume full responsibility for the support of primary instruction. The main problems of providing salaries for teachers, the cost of buildings and equipment, and the textbooks that are now furnished free shall be taken care of by the national government.

Instruction in the intermediate grades shall be supported by the municipalities and chartered cities with the funds derived from the real-estate tax, from the internal revenue allotment, and from other sources of revenue that now accrue to the regular municipal school fund. Since these funds will most likely not be sufficient to take care of any increase in the intermediate grades, legislative measures are now under consideration to give the municipal governments the power to impose a school tax so as to avoid the necessity of requiring pupils in the intermediate grades to pay tuition fees.

To give vocational secondary education a greater impetus, measures have been recommended to place these schools on a stable basis which would permit adequate planning and a long-range program for their development. Legislation is now under consideration which would set aside a definite percentage of the general funds of the provinces expressly for the maintenance of vocational schools. Besides the provincial vocational schools, provision will also be made for the continued national support of regional vocational secondary schools, regional normal schools, and special schools already established or to be established.

It is planned to develop four or five regional agricultural schools of the Muñoz type in different parts of the Philippines, and a similar number of regional trade and industrial schools of the type and standard of the Philippine School of Arts and Trades but with a greater variety of industrial courses. These schools will be maintained by the national government, will be well equipped and adequately

staffed, and will serve as models and set the standards for all other agricultural and industrial schools. They will offer more advanced instruction than that given in the provincial schools with a view to training leaders for the different industries.

Private schools, colleges, and universities continued in 1937 to perform an important educational function in the Philippines. The passage of the new private-school law has improved the standards of private schools now in operation and has prevented the opening of new schools that are not adequately provided for.

The office of adult education was created by the first National Assembly in order to give effect to section 5, article XIII, of the Constitution of the Philippines which provides in part that the government shall provide citizenship training to adult citizens. The office of adult education has prepared a program designed to invite and attract adults to take advantage of the opportunity of obtaining at least the rudiments of education. In the beginning, progress was rather slow because of the fact that very little was known of adult education in this country. Up to the end of December 1937 there were 4,964 civic-spirited men and women who had volunteered their services to teach illiterates. During the year 1937, 164 adult classes were organized in different parts of the Philippines with a total enrollment of 10,077. There were also schools for illiterate trainees in 109 cadres of the Philippine Army with an enrollment of 10,843 during the 1937 training periods. Local authorities have become enthusiastic about the work and have pledged their full cooperation. Some provincial governments and chartered cities have extended financial help to promote adult education in their respective communities.

Health and sanitation.—In general, the state of public health in the Philippines in 1937 was satisfactory. There was no outbreak of major epidemic diseases. However, there were some minor outbreaks of diseases which required special attention. These included gastro-intestinal diseases, dysentery, typhoid fever, broncho-pneumonia, measles, influenza, diphtheria, poliomyelitis, and cerebrospinal meningitis. Tuberculosis continues to be the greatest scourge which the government has to combat. With the exception of one case of cholera reported in August 1935 and one case in April 1937 the Philippines have been free from cholera since 1934.

Further steps have been taken toward a more effective and satisfactory examination and segregation of lepers. Under the provisions of Commonwealth Act No. 161, three new leprosariums have been located in Luzon which will permit the unfortunate victims of the disease in the early stages to be treated where they may be easily reached by their families, thus making their isolation less tragic.

The construction of artesian wells, public water supplies, and sanitary dug wells was extended to the limit of available appropriations. The number of hospitals under the Bureau of Health remained the same as in the preceding year. The number of beds therein was slightly increased. There are at present 532 puericulture centers, 38 additional centers having been established during 1937.

Quarantine.—The quarantine service is administered under the direction of the United States Public Health Service in accordance with the provisions of section 1130 of the Administrative Code. Senior Surgeon Howard F. Smith, detailed as chief quarantine officer

for the Philippines, also serves as the officer in charge at the port of Manila.

At the beginning of the year, cholera was present in Siam and adjacent areas and the usual precautions were taken with arrivals from that locality. Due to the occurrence of cholera in epidemic form in various places on the China coast, intensive measures were instituted to prevent, if possible, the transmission of the disease to the Philippines. Immunization against cholera was demanded of all passengers destined for the Philippines. Intensive anticholera restrictions were placed in effect from August 7 to December 22, 1937, when they were discontinued in view of the improved conditions with regard to the occurrence of cholera in the Orient. During this period, 221 vessels with 34,992 passengers and 29,825 crew, or a total of 64,817 persons, passed through the Manila quarantine station from ports where cholera was reported present. Of the passengers arriving, 10,407, considered potentially dangerous, were bacteriologically examined and 296 were found to be infected with cholera. These were isolated and treated before being released to the immigration officials. It is satisfying to record that although cholera was present with more or less severity in almost every country of the Orient, no case of cholera gained access to the Philippines during this period.

With the advent of aircraft and more rapid marine transportation, the sailing time between ports of the Orient and the Philippines is yearly lessening, making the early receipt of epidemiological data pertaining to the presence of epidemic quarantinable diseases in these ports imperative, if such diseases are to be kept from gaining entry into the Philippines. American consuls in the Orient also furnished the chief quarantine officer of the Philippines with consular sanitary reports covering the diseases which occurred in the cities at which they were stationed. No case of any of these diseases gained access to the Philippines. The purpose of the quarantine service to prevent the introduction into the Philippines of such diseases by vessels and aircraft may therefore be said to have attained a full measure of success. Dr. Howard F. Smith deserves special commendation.

ADMINISTRATION OF JUSTICE

Since my last report, in which attention was invited to the several acts approved by the National Assembly reorganizing the Supreme Court, the courts of first instance, the Public Service Commission, and the justice of the peace courts, and creating the court of appeals, the Court of Industrial Relations, and the Securities and Exchange Commission, these reorganized or new bodies have been functioning normally and regularly. The Court of Industrial Relations has succeeded in resolving several conflicts between employers and employees, and between landlords and tenants, to the satisfaction of all parties, and has begun the survey of conditions in the sugar and in the cigar and cigarette industries with the end in view of determining whether it is necessary to fix minimum wages or shares or maximum rental thereat. The Securities and Exchange Commission, to which is entrusted the function and the responsibility of protecting the public against fraudulent practices in speculative enterprises, has, judged by its record during the period of this report, more than justified its creation.

LABOR AND SOCIAL JUSTICE

In furtherance of the government policy to improve the conditions of labor, the Department of Labor was active in safeguarding the welfare of employees both in industry and agriculture.

Factory inspection.—Factory inspections covered 3,174 establishments employing 200,733 laborers. These inspections resulted in the more strict enforcement of existing labor laws, especially those relating to the promotion of the safety of the laborers.

Wage claims.—The number of wage claims settled by the Bureau of Labor was 2,300 involving the sum of ₱314,413.42. Of the number of claims settled in 1937, 1,621 were in favor of claimants, the amount of ₱179,998.45 having been recovered for them. To this should be added 197 claims brought by the Bureau of Labor to, and decided by, the courts which awarded to the claimants the amount of ₱3,369.84. At the close of the year, 1,171 cases, involving 4,760 claimants and the amount of ₱141,943.33, were pending adjustment.

Criminal cases handled.—Under Act No. 4152, public defenders handled, for and in behalf of indigent court litigants, 427 criminal cases. Three hundred and thirty-two cases were disposed of as follows: There were 83 pleas of guilty and 59 additional convictions; 156 were dismissed or the accused acquitted; 34 cases were withdrawn; and 95 cases involving 99 persons were pending judgment at the close of the year. The crimes for which indigent persons were accused ranged from murder to violation of municipal ordinances.

Workmen's compensation.—The number of accident cases handled in 1937 was 6,246, of which 4,277 were newly reported cases. One thousand eight hundred and twenty cases were closed and the amount of ₱249,843.28 was paid as compensation to the injured laborers or their dependents. In 54 of these cases, compensation totaling ₱36,650.27 was awarded by the courts through the intervention of the Bureau of Labor, to injured laborers or their dependents. Accident fatalities numbered 352 in 1937 as against 244 in 1936.

Strikes.—Fifty strikes and minor disputes were registered in 1937 as against 51 in 1936. Of the total number of disputes in 1937, 34 involved stoppage or suspension of work while 16 were threatened strikes. Thirty-eight disputes were settled with advantage to the laborers, while 12 resulted adversely. Twenty-three strikes were declared by unionists and 27 by unorganized laborers.

The department also intervened in the solution of 633 tenancy cases, of which 421 resulted favorably to the complainants and 212 against them. One hundred and ninety-four cases were pending at the close of the year.

Free employment agencies.—Of the 3,129 registered applicants for employment, 1,107 were placed by the Manila agency of the bureau and by representatives in the provinces as compared with 2,055 persons registered and 1,491 placed in 1936.

Four hundred and sixty-four contracts involving 19,587 seamen were formalized.

Interisland migration.—Four thousand six hundred and eighty-eight home seekers, including members of families, were recruited and transported to Mindanao during the year 1937 at a per capita expense of ₱24.67.

PUBLIC WORKS

Road construction in Mindanao continued to receive special attention during the period covered by this report. An appropriation of ₱1,000,000 was made available for that purpose, with which the first through highway across the island was completed and is now open to motor vehicle traffic. This road connects the port of Iligan on the north to the port of Davao on the south, via the Lake Lanao region and Cotabato, a distance of 412 kilometers and has already proved of great benefit to immigrants from the northern provinces.

By an executive order, effective January 1, 1937, all public highways were classified as national, provincial, or municipal, and the corresponding branches of the government were charged with responsibility for their construction, improvement, and maintenance, thereby coordinating the efforts of all agencies concerned with highway work.

During the year, the sum of ₱21,562,076.38 was expended for the construction and upkeep of roads and bridges, an increase of 29 percent compared with 1936. Three hundred and seventeen kilometers of first-class roads and 405 kilometers of second-class roads were built, which increased the total kilometerage of such highways to 17,458. Twenty-three bridges were completed with an aggregate span of 904 meters, at a cost of ₱1,092,107.89. Expenditures for port improvement and maintenance amounted to approximately ₱2,300,000 and ₱1,400,000, respectively.

The Bureau of Aeronautics, created last year through the passage of Commonwealth Act No. 168, made substantial progress in the preparation of a comprehensive program of airport construction and operation, designed to foster safe and efficient air service throughout the country.

The accumulation of a large fund from the coconut-oil tax has made it possible to prepare an extensive public-works program of permanent improvements. The program contemplates a total expenditure over a 4-year period of ₱96,141,300. This program, which is without precedent either in amount or scope, is based on present financial condition of the government and covers only funds already available without entailing a burden on future income. No recurring expenditures are contemplated that cannot be provided for from current ordinary income of the government. With the exception of local roads, the appropriations requested are based on completed projects.

The projects relate to schools; hospitals; flood control; improvements in cable, radio, and telegraph stations; bridges; Manila air port; national park roads; Tagaytay townsite; and reclamation of swamp lands in parts of the city of Manila. As the work will spread over several years, it is not expected that the large expenditure will create any general rise in the price of commodities.

An appropriation of ₱5,050,000 was made in 1937 for school buildings, to be expended in 1938. Out of this appropriation, construction of new buildings and additions to existing buildings have been provided for in 297 barrio and municipal schools. It is believed that not more than ₱12,000,000 will have to be appropriated for 1939.

CIVIL SERVICE

Pursuant to the provisions of the new civil-service law, which make the civil-service rules applicable to all branches and ramifications of the government service, 40,000 employees hitherto not affected by civil-

service rules were brought under the merit system. As a consequence, the Bureau of Civil Service was called upon to give a number of "qualifying" examinations for unqualified employees, in addition to the technical examinations and the entrance examinations to recruit eligibles for newly created positions.

During the year 1937 there were 12,271 appointments made to the classified civil service. The large number was due to the inclusion in the service of the municipalities, the newly chartered cities, and the agencies formerly not embraced in the Philippine civil service. One hundred and forty-six persons, including 46 Americans, were granted retirement under acts 2589, 4051, and 4151.

LEGISLATION

Commonwealth Act No. 236, approved September 16, 1937, authorized the President of the Philippines to designate or create an agency for the purpose of making sugar allotments of quotas established under the United States Sugar Act of 1937 on the basis of section 6 of the act of Congress of March 24, 1934, Public, No. 127. Prior to enactment of the Sugar Act of 1937, sugar allotments were made by the Office of the United States High Commissioner, who was the United States sugar authority in the Philippines. The administration in the Philippines of matters relating to quotas of Philippine products shipped to the United States is now a responsibility of the Commonwealth government as contemplated in the Independence Act.

Commonwealth Act No. 237 was enacted to correct the inequities resulting from the application of the acts liquidating the various pension funds referred to in my last report. The act provides that all persons who, on or before November 14, 1936, had retired under and pursuant to the terms and conditions of those retirement acts, and were then receiving the benefits provided by said acts and the beneficiaries of said persons, and all beneficiaries of deceased persons previously retired under said acts, shall hereafter receive and be paid the full amount of the annuities which had then accrued to them or may hereafter accrue to them under the terms of the repealed acts in question.

Commonwealth Act No. 238 abolishes the cedula tax.

Commonwealth Act No. 241 appropriates ₱5,000,000 to replace the average annual proceeds of the cedula tax to the provinces, cities, and municipalities.

Commonwealth Act No. 240, approved December 8, 1937, appropriates the sum of ₱5,050,000 for elementary school buildings.

Commonwealth Act No. 242 provides for an annual appropriation of ₱1,000,000 from the national government toward the support of the city of Manila as the capital and seat of the national government.

Commonwealth Act No. 244 provides that the National Assembly shall convene in regular session on the fourth Monday of January of each year and if said day is a legal holiday, then on the next succeeding day which is not a legal holiday.

NATIONAL RELIEF

The National Relief Board was created by Executive Order No. 61 for the purpose of carrying out the provisions of Commonwealth Act No. 90, approved October 26, 1936, appropriating ₱1,500,000 for relief

in the different provinces devastated by typhoons, floods, or other public calamities. The board determines the amounts necessary for relief and, subject to the approval of the President, allots the necessary funds. The board stands ready to meet any emergencies.

The disasters in 1937 included the floods in the Cagayan Valley which occurred in December 1936 and a disastrous fire in the Tondo district of Manila in April 1937. Two destructive typhoons, one on November 11, 1937, which swept the provinces of Tayabas, Pampanga, Bataan, Zambales, and the second, on November 17, 1937, which struck Antique, Capiz, Cebu, Iloilo, Leyte, Mindoro, Negros Occidental, Romblon, and Samar, led the National Assembly to appropriate ₱500,000 for relief of the sufferers. Before action by the assembly, the National Relief Board had already taken necessary steps to aid the stricken areas. The funds were largely used in the rebuilding and repair of destroyed and damaged school buildings, sea walls and dikes, and the repair of damaged roads.

On January 1, 1937, the board had ₱1,399,900, remaining on hand from the above appropriation. On December 31, 1937, the board had on hand a balance of ₱650,000.

The Philippine Red Cross (American National Red Cross) had total receipts of ₱777,329 during the year, and a total expenditure of ₱574,650.53, leaving total cash resources of ₱203,178.45 at the end of the year. In the areas suffering from disaster, the Red Cross rendered assistance to more than 180,000 persons who were victims of fire, flood, and storms.

The United States Army cooperated by the loan of tentage for the Tondo fire sufferers in Manila, while the Philippine Army extended aid in the major disasters by assigning personnel to assist in carrying out relief work.

THE INSTITUTE OF NATIONAL LANGUAGE

Pursuant to article XIII, section 3, of the Constitution of the Philippines, which provides that "the National Assembly shall take steps toward the development and adoption of a common national language based on one of the existing native languages," the first National Assembly, in its first regular session, enacted Commonwealth Act No. 184, approved November 13, 1936, establishing an Institute of National Language. The institute as organized consists of seven members, each representing one of the principal linguistic groups of the Philippines.

The institute has made an extensive study of all the native languages, with a view to determining which is the most developed and most widely used and accepted, and, hence the most adaptable as the basis of the national language. As a result of the study, the institute finally recommended the adoption of Tagalog as the most adaptable and on December 30, 1937, Executive Order No. 134 was issued approving the adoption of Tagalog as the basis of the national language of the Philippines.

ELECTIONS

Elections for provincial, city, and municipal officials were held on December 14, 1937, and the newly elected candidates assumed office on January 1, 1938, for a period of 3 years.

WOMAN SUFFRAGE

Article V of the constitution provides that "the National Assembly shall extend the right of suffrage to women, if in a plebiscite which shall be held for that purpose within 2 years after the adoption of this Constitution, not less than 300,000 women possessing the necessary qualifications shall vote affirmatively on the question." The plebiscite was held on April 30, 1937, pursuant to Commonwealth Act No. 34. A total of 492,032 votes were cast by female voters, out of 588,052 qualified registrants. Affirmative votes numbered 447,725 against 44,307 negative.

THE CENSUS COMMISSION

Pursuant to the provisions of Commonwealth Act No. 170, the Census Commission was created on December 4, 1936. The work done in 1937 was chiefly preparatory. Blank forms have been prepared, printed, and distributed and the field work will be actively carried out in 1938. Of the total appropriation of ₱1,500,000, there has been expended at the end of 1937 a total of ₱210,213.60.

IMMIGRATION AND EMIGRATION

The administration of existing immigration laws was transferred from the Bureau of Customs to the Department of Labor, effective January 1, 1937, pursuant to Commonwealth Act No. 139 and Executive Order No. 81.

During the year 1937 a greater number of persons arrived in the Philippines than during the previous year. Excluding the enlisted men and persons attached to the military and naval forces of the United States, a total of 44,310 persons arrived in, and 25,331 persons departed from, the Philippines as compared with 37,021 arrivals and 27,648 departures in 1936.

Of the 6,173 Americans, 2,921 went to the United States and other insular possessions and 3,252 to foreign countries; of the 3,208 Filipinos, 704 went to the United States and insular possessions and 2,504 to foreign countries; of the 9,516 Chinese departures, 2 went to the United States and other insular possessions and 9,514 to foreign countries, of which 1,828 were emigrants and 7,686 nonemigrants; of the 3,336 Japanese, all went to Japan and other foreign countries, of which 1,935 were emigrants and 1,401 nonemigrants.

One hundred sixteen aliens consisting of 112 Chinese, 1 East Indian, and 3 Russians were deported from the Philippines in 1937 as compared with 272 aliens, consisting of 270 Chinese, 1 East Indian, and 1 Russian in 1936.

Of the 10,620 immigrants for 1937, 5,170 were Chinese, 4,170 were Japanese, and all other nationalities totaled 1,280.

VISIT TO THE UNITED STATES

After an exchange of messages with Hon. Frank Murphy, United States High Commissioner, who was then in the United States, the latter suggested the desirability of my going to Washington for a preliminary discussion of the question as to the required changes in the provisions of the Tydings-McDuffie Act. I left for the United States on January 23, 1937, arriving in February, and I returned to Manila on August 17, 1937.

During this time I took advantage of the opportunity to visit Mexico, Cuba, France, and Germany for the purpose of making first-hand observation of conditions in those countries. On the way to the United States, I also passed through China and Japan.

I desire to make of record my appreciation of the courtesies rendered to me by the governments of those countries, more especially those received in Mexico and Cuba where the official honors rendered due my station were rivaled only by the demonstrations of affection to the people of the Philippines by the Mexicans and Cubans who are bound with us by historic associations.

PHILIPPINE-AMERICAN TRADE CONFERENCE

On the day of my arrival in Washington I discussed with the President of the United States the unsatisfactory condition from the point of view of the Filipino people of their political as well as economic relations with the United States. I submitted to the President the question of the unstable trade relations between the United States and the Philippines and recommended that the whole question of American-Philippine relations be reconsidered so as to provide a more equitable and stable trade arrangement between the two countries for a limited number of years beyond the date for the granting of independence—a date which I thought, and so stated to the President, should be set at either the 30th of December 1938, or the 4th of July 1939.

Following the conference with the President of the United States, I had various conferences with the Honorable Francis B. Sayre, Assistant Secretary of State and Chairman of the Interdepartmental Committee on Philippine Affairs. As a result of these conferences, the Joint Preparatory Committee was organized consisting of American experts appointed by the President of the United States and Philippine experts appointed by the President of the Philippines. As stated in the joint press statement released in Washington at the time, the Committee was created for the principal purpose of studying the economic factors in Philippine-American relations and making recommendations regarding future trade relations between the two countries.

Hon. John Van A. MacMurray, United States Ambassador to Turkey, was appointed Chairman of the Committee. Mr. Joseph E. Jacobs, United States State Department, was appointed vice chairman of the Committee and chairman of the American section and Hon. Jose Yulo, secretary of justice of the Commonwealth government, was appointed vice chairman of the Committee and chairman of the Philippine section. Hearings were held in Washington, San Francisco, and in the Philippines. The members of the Committee arrived in Manila in August 1937, visited most of the Provinces of the Philippines, and the American members departed on November 10, 1937. The Committee thereafter resumed sessions in Washington, where its report was finally completed on May 20, 1938.

CONCLUSION

In conclusion, I desire to express my deep appreciation of the spirit of helpfulness that has animated all agencies of the United States Government in the Philippines. The garrison of United States troops, under the leadership of Major General Lucius R. Holbrook, since assigned elsewhere, has been of incalculable assistance in the develop-

ment of our national defense plans. Both under ordinary conditions and in emergencies, the Commonwealth government could count with certainty upon the effective cooperation and good will of all military personnel. In the same spirit, all other agencies of the United States, particularly the United States Navy, have stood ever ready with friendly counsel and assistance. The involved and important tasks that still await accomplishment under the Commonwealth government can be approached with confidence because of the cooperative and sympathetic attitude of the representatives of the United States Government in the Philippines.

It is also a pride and satisfaction to acknowledge the loyalty and conscientious effort of the officials and personnel of the various departments of the Commonwealth government and of the National Assembly which gave to the government in 1937 a satisfactory measure of progress along so many lines.

Respectfully,

MANUEL L. QUEZON.

APPENDICES

APPENDIX I. FINANCIAL OPERATION OF THE COMMONWEALTH GOVERNMENT DURING THE FISCAL YEAR 1937

Income, expenditures, and surplus.—During the fiscal year 1937, the national government realized a total income of P230,800,026.89 for all the current funds, including the coconut-oil excise tax, while the total expenditures from the same amounted to P113,889,971.42. The following statement shows the result of the operation of each of the current funds during the year:

Fund	Collections	Expenditures	Surplus
General fund.....	P210,072,791.32	P92,552,978.87	P117,519,812.45
Special funds.....	24,551,727.27	25,191,454.25	¹ 609,756.98
Bond fund.....	506,520.00	506,520.00	-----
Total.....	235,161,038.59	118,250,953.12	116,910,055.47
Less—			
General fund appropriations considered as income of special funds.....	2,641,008.04	2,641,008.04	-----
Reversions of surplus to general fund considered as expenses of the special funds.....	1,213,484.08	1,213,484.08	-----
Reversion of income to general fund considered as expenses of bond fund.....	506,519.58	506,519.58	-----
Total.....	4,361,011.70	4,361,011.70	-----
Net total.....	230,800,026.89	113,889,971.42	116,910,055.47

¹ Deficit.

The operation of the reserve funds the same period is shown in the following statement:

Fund	Collections	Expenditures	Surplus
Sinking funds.....	P5,517,699.43	P4,178,827.26	P1,338,872.17
Exchange standard fund.....	2,253,918.39	352,204.05	1,901,714.34
Treasury certificate fund.....	63,301,318.00	50,123,043.00	13,178,275.00
Total.....	71,072,935.82	54,654,074.31	16,418,861.51

Income in 1937 and 1936, general fund, compared.—The collections for the general fund that were realized in 1937, compared with those of 1936, were as follows:

Items	Fiscal year 1937		Fiscal year 1936		Increase (+), decrease (—)	
	Amount	Ratio to total income expense	Amount	Ratio to total income expense	Amount	Percentage based on 1936 figures
		<i>Percent</i>		<i>Percent</i>		
Revenue from taxation.....	P92,230,195.87	39.96	P72,704,866.72	70.24	+P19,525,329.15	+26.86
Coconut-oil tax in United States.....	113,827,825.20	49.32	-----	-----	+113,827,825.20	-----
Incidental revenue.....	4,837,255.92	2.10	4,550,145.94	4.42	+257,109.98	+5.61
Earnings and other credits.....	18,281,892.26	7.92	15,282,251.25	14.77	+2,999,641.01	+19.63
Repayment of loans and advances.....	409,354.64	.18	4,884,973.70	4.72	—4,475,619.06	—91.62
Proceeds of loans for the construction of permanent bridges.....	1,213,500.00	.52	-----	-----	+1,213,500.00	-----
Transfer from exchange standard fund.....	-----	-----	6,050,000.00	5.85	—6,050,000.00	—100.00
Total receipts and transfer.....	230,800,026.89	100.00	103,502,237.61	100.00	+127,297,789.28	+122.99

APPENDIX II.—*Expenditures by functional purposes*

Items	Fiscal year 1937	Fiscal year 1936	Increase (+), decrease (—)	Ratio to total expenditures	
				Fiscal year 1937	Fiscal year 1936
Revenue service.....	10,557,818.76	8,058,382.92	+2,499,435.84	<i>Percent</i> 9.27	<i>Percent</i> 8.72
Expense of revenue collection.....	2,875,936.20	2,014,432.51	+861,503.69	2.52	2.18
Operating expense of commercial and industrial units.....	7,681,882.56	6,043,950.41	+1,637,932.15	6.75	6.54
Debt service.....	8,065,084.63	8,395,350.13	—330,265.50	7.08	9.09
Interest and exchange on national government bonds.....	5,829,905.42	5,854,175.42	—24,270.00	5.12	6.34
Contribution to sinking funds of na- tional government bonds.....	2,235,179.21	2,541,174.71	—305,995.50	1.96	2.75
General welfare service.....	77,448,356.69	62,096,925.47	+15,351,431.22	68.00	67.23
Executive direction and control.....	4,019,490.03	3,230,554.59	+788,935.44	3.53	3.50
Legislation.....	1,342,135.84	1,250,573.34	+91,562.50	1.18	1.35
Adjudication.....	2,733,404.80	2,754,656.81	—21,252.01	2.40	2.98
National defense.....	16,198,275.96	10,716,476.78	+5,481,799.18	14.22	11.60
Law and order.....	582,040.27	473,975.49	+108,064.78	.51	.51
Public health.....	4,930,165.28	4,231,848.26	+698,317.02	4.33	4.58
Protection against force majeure.....	150,758.74	132,822.63	+17,936.11	.13	.15
Regulation of public utilities.....	108,231.71	75,093.43	+33,138.28	.09	.08
Other protective service.....	2,325,703.48	1,785,428.37	+540,275.11	2.04	1.93
Public education.....	19,962,230.49	18,035,628.87	+1,926,601.62	17.53	19.53
Public correction.....	898,797.08	783,520.08	+115,277.00	.79	.85
Public charity.....	876,016.75	481,140.34	+394,876.41	.77	.52
Other social improvement.....	28,111.60	10,984.28	+17,127.32	.02	.01
Conservation of natural resources.....	944,299.60	737,157.55	+207,142.05	.83	.80
Development of commerce.....	10,326,764.27	7,630,147.56	+2,696,616.71	9.07	8.26
Development of agriculture.....	10,646,809.97	8,849,111.59	+1,797,698.38	9.35	9.58
Development of industrial arts and sciences.....	213,803.46	240,447.36	—26,643.90	.19	.26
Development on mineral resources.....	101,838.91	5,737.18	+96,101.73	.09	.01
Other economic development.....	935,963.36	540,884.45	+395,078.91	.82	.59
Philippine publicity.....	123,515.09	130,736.51	—7,221.42	.11	.14
Investments.....	11,982,818.95	12,690,908.32	—708,089.37	10.52	13.74
Purchase of Philippine National Bank stock (private shares), Act 3174.....	800.00	10,240.00	—9,440.00	-----	.01
Advances for the payment of interest and exchange on Philippine Ry. Co. bonds.....	350,936.45	683,920.00	—332,983.55	.31	.74
Advances for the payment of interest and exchange on Manila R. R. Co. bonds.....	211,560.00	706,748.32	—495,188.32	.19	.77
Loan to Manila R. R. Co. for the re- demption of the Southern Lines bonds.....	0.00	9,990,000.00	—9,990,000.00	0.00	10.82
Purchase of stocks of the National De- velopment Co.....	9,000,000.00	1,000,000.00	+8,000,000.00	7.90	1.08
Purchase of stocks of the Manila R. R. Co.....	2,000,000.00	300,000.00	+1,700,000.00	1.76	.32
Advance to National Power Corpora- tion.....	50,000.00	0.00	+50,000.00	.04	0.00
Restoration and replacement of sink- ing funds investments in Philippine Ry. Co. and Manila Ry. Co., Ltd. bonds.....	369,522.50	0.00	+369,522.50	.32	0.00
Miscellaneous charges—Retirement gra- tuities.....	1,053,754.59	1,124,625.85	—70,871.26	.93	1.22
Transfer to government service insurance system.....	4,782,137.80	0.00	+4,782,137.80	4.20	0.00
Total functional expenditures (see budget statement).....	113,889,971.42	92,366,192.69	+21,523,778.73	100.00	100.00

1 Payable quarterly.	1 Unissued bonds under Acts 3013 and 3058 in the sums of ₱19,403,000 and ₱1,000,000, respectively, are authorized to be canceled under Act 3333.	1 Total collateral bonds, ₱16,567,000.	1 Cash in hands of collecting officers.
1 Payable semiannually.	1 Deficit.	1 Annual allotment receivable.	

APPENDIX III. STATEMENT OF TOTAL ASSETS, LIABILITIES, AND SURPLUS, ALL FUNDS

Total assets, liabilities, and surplus, all funds.—The total assets, liabilities, and surplus of all funds of the Commonwealth government at the end of the fiscal year 1937 were as follows:

CURRENT ASSETS, LIABILITIES, AND SURPLUS

	Fund	Liabilities	Surplus
General fund	₱182,792,579.80	₱17,365,098.46	₱165,427,481.34
Special funds	48,491,637.42	17,139,357.02	31,352,280.40
Bond fund	10,165,592.00	9,592.00	10,156,000.00
Total	241,449,809.22	34,514,047.48	206,935,761.74

RESERVE AND OTHER ASSETS, LIABILITIES, AND SURPLUS

Sinking fund	₱64,115,821.94	-----	₱64,115,821.94
Exchange standard fund	46,725,618.60	₱122,022.97	46,603,595.63
Treasury certificate fund	145,333,275.00	-----	145,333,275.00
Fiduciary funds	25,899,803.95	25,899,803.95	-----
Depository funds	29,231,502.10	29,231,502.10	-----
Retirement gratuities	1,829,915.06	1,829,915.06	-----
Contingent assets	43,359,848.77	-----	43,359,848.77
Total	356,495,785.42	57,083,244.08	299,412,541.34
Total current, reserve, and other assets	597,945,594.64	91,597,291.56	506,348,303.08

INVESTED AND FIXED ASSETS, LIABILITIES, AND SURPLUS

Permanent and long-term investments	₱116,055,600.59	₱35,567,000.00	₱80,488,600.59
Real property and equipment, and public domain ¹	202,099,132.28	112,163,500.00	89,935,632.28
Determined losses—agricultural bank loans	21,972.53	-----	21,972.53
Total	318,176,705.40	147,730,500.00	170,446,205.40
Grand total	916,122,300.04	239,327,791.56	676,794,508.48

¹ Public domain is carried in the accounts at the nominal value of ₱1 only.

APPENDIX IV. PUBLIC DEBT

During the year 1937 the total bonded indebtedness of the national government amounted to ₱150,437,000, of which ₱64,115,821.94 was covered by existing sinking funds, thus leaving a net outstanding bonded debt of only ₱86,321,178.06.

The following statement is a detailed account of the status of the bonded debt of the Commonwealth for the year ending December 31, 1937:

APPENDIX V. CURRENCY CIRCULATION

Date	Philippine treasury cer- tificates and bank notes of ₱2 or over	Silver pesos and half silver pesos, treasury certificates and bank notes of ₱1	Subsidiary and minor cur- rency	Total circula- tion 1	Increase (+) or decrease (-) over previous year or month	Percentage of treasury cer- tificates and bank notes of ₱2 or over to the total circulation	Percentage of silver pesos and half sil- ver pesos, treasury cer- tificates and bank notes of ₱1 to the total circulation	Percentage of subsid- iary and minor cur- rency to the total circula- tion
December 31:								
1933	Pesos 75,125,726.00	Pesos 14,926,627.00	Pesos 10,530,334.96	Pesos 100,582,687.96	Pesos +11,500,453.26	74.6	14.8	10.6
1934	76,423,141.00	14,575,092.50	11,031,273.43	102,027,491.94	+1,506,803.98	74.9	14.2	10.9
1935	90,174,220.00	15,824,152.50	11,339,320.42	117,337,692.92	+15,310,202.98	76.8	13.4	9.8
1936	110,904,861.00	17,281,861.00	12,217,299.37	140,404,021.37	+23,061,328.45	79.0	12.3	8.7
1937								
January	111,865,024.00	17,730,296.00	12,364,730.67	141,960,050.67	+1,556,029.30	78.8	12.4	8.7
February	112,847,349.00	17,734,203.00	12,577,754.95	143,159,306.95	+1,199,256.28	78.8	12.3	8.7
March	117,927,435.00	18,362,980.50	12,804,416.71	149,090,832.21	+5,931,525.26	79.2	12.3	8.6
April	119,575,125.00	18,434,459.00	12,965,062.57	150,974,646.57	+1,883,814.36	79.2	12.2	8.5
May	117,841,313.00	18,841,330.00	13,121,551.53	149,804,205.03	-1,170,441.54	78.7	12.2	8.6
June	120,357,686.00	18,625,426.50	13,232,675.47	152,215,787.97	+2,411,582.94	79.1	12.2	8.6
July	121,303,600.00	18,657,526.50	13,363,867.75	153,324,994.25	+1,079,206.28	79.1	12.2	8.7
August	121,806,558.00	18,035,479.50	13,492,138.14	153,334,175.64	+9,181.39	79.4	11.8	8.7
September	123,738,161.00	18,479,883.00	13,604,790.64	155,822,012.64	+2,487,837.00	79.4	11.9	8.7
October	126,034,847.00	18,467,883.00	13,718,942.15	158,221,672.15	+2,399,659.51	79.6	11.6	8.6
November	127,489,691.00	18,726,217.50	13,840,736.59	160,056,645.09	+1,834,972.94	79.7	11.6	8.6
December	129,047,761.00	19,080,157.50	14,014,307.89	162,142,226.39	+2,085,581.30	79.5	11.7	8.6
Total circulation, Dec. 31, 1937				162,142,226.39				
Total circulation, Dec. 31, 1936				140,404,021.37				
Increase in circulation					21,738,205.02			

1 Includes the estimated amount destroyed, unknown.

2 Total circulation..... ₱162,142,226.39

Less estimated amount destroyed, unknown.....

Net circulation.....

161,489,426.39

APPENDIX VI. GOVERNMENT-OWNED CORPORATIONS

The following statement shows the financial condition of the government-owned corporations on December 31, 1937:

Outstanding capital stock

Corporation	Total	Held by the central government	Held by the government-owned companies	Held by private parties
Philippine National Bank.....	₱10,000,000.00	₱9,853,000.00	-----	₱147,000.00
Manila R. R. Co.....	27,427,000.00	27,427,000.00	-----	-----
Manila Hotel Co.....	900,000.00	-----	₱871,600.00	28,400.00
National Development Co.....	14,845,300.00	14,845,300.00	-----	-----
Cebu Portland Cement Co.....	2,750,800.00	-----	2,750,000.00	800.00
Sabani Estate (administered by the National Development Co.).....	320,260.00	-----	320,260.00	-----
National Rice & Corn Corporation.....	4,000,000.00	-----	4,000,000.00	-----

Surplus or deficit

	Dec. 31, 1937	Dec. 31, 1936	Increase (+), decrease (-)
Philippine National Bank.....	₱9,857,067.22	₱9,057,604.02	+₱799,463.20
Manila R. R. Co.....	19,748,826.62	19,953,378.11	-204,551.49
Manila Hotel Co.....	1,396,949.45	1,120,523.49	+276,425.96
National Development Co.....	237,799.53	1,090,385.14	+1,328,184.67
Cebu Portland Cement Co.....	808,530.87	506,580.99	+301,949.88
Sabani Estate.....	5,936.33	1,674.52	+6,610.85
National Rice & Corn Corporation.....	2,402,470.41	2,421,551.31	-19,080.90

¹ Deficit.

APPENDIX VII (A). LIST OF THE MORE IMPORTANT MEASURES PASSED AT THE SECOND REGULAR SESSION AND SPECIAL SESSION OF THE NATIONAL ASSEMBLY

Commonwealth Act No. 233: Election Law.

Commonwealth Act No. 234: Appropriation of ₱1,200,000 for new elementary classes.

Commonwealth Act No. 236: Creation of sugar administration office.

Commonwealth Act No. 237: Restoration and payment of all annuities due to persons retired under the Teachers', Health, and Constabulary Pension Acts.

Commonwealth Act No. 238: Abolition of cedula tax.

Commonwealth Act No. 239: Appropriation of ₱500,000 for relief of communities and indigent sufferers from typhoons, floods, or other public calamities.

Commonwealth Act No. 240: Appropriation of ₱5,050,000 for elementary school buildings.

Commonwealth Act No. 241: Appropriation of ₱5,000,000 to compensate provinces, subprovinces, chartered cities, municipalities, and municipal districts for the loss from their revenues on account of abolition of the cedula tax.

Commonwealth Act No. 242: Annual appropriation of ₱1,000,000 for improvement of the City of Manila.

Commonwealth Act No. 245: General Appropriation Act for 1938.

Commonwealth Act No. 246: Prescription of form of the Budget and regulation of expenditures of authorized appropriations.

Commonwealth Act No. 248: Granting employees retired under Osmeña Retirement Act the benefits granted to employees retired under the Gratuity Act upon retirement in the service.

Commonwealth Act No. 251: Tax on occupation.

Commonwealth Act No. 253: Free entry of woods, barks, roots, etc., for dyeing or tanning purposes.

APPENDIX VII (B). LIST OF THE MORE IMPORTANT EXECUTIVE ORDERS ISSUED BY THE PRESIDENT OF THE PHILIPPINES

- Executive Order No. 85, dated January 22, 1937, reorganized the municipality of Dulawan, Cotabato, into 8 barrios, formerly 29 barrios.
- Executive Order No. 86, dated January 22, 1937, same for Midsayap, Cotabato, formerly 72 barrios into 8 barrios.
- Executive Order No. 92, dated January 23, 1937, requires a reserve of 5 percent to be set up from the general appropriations authorized for the year 1937 under Commonwealth Act No. 38, for the purpose of securing or safeguarding the interest of the government by requiring and insuring the stability of a balanced budget.
- Executive Order No. 93, dated January 23, 1937, places under the control of the division of purchase and supply all unused and dormant supplies and equipment of the national government and requiring the approval of the commissioner of the budget on all requisitions and orders for supplies, materials, furniture, and equipment.
- Executive Order No. 98, dated April 24, 1937, prohibits the automatic renewal of contracts and requires public bidding before entering into new contract.
- Executive Order No. 101, dated June 14, 1937, fixes the cordage allowance during a 12-month period beginning May 1, 1937.
- Executive Order No. 104, dated June 14, 1937, prescribes the method of coursing official correspondence to the United States and to foreign countries.
- Executive Order No. 105, dated August 16, 1937, amends Executive Order No. 49, of 1936, relative to minimum pay to common laborers and employees of the national government and fixing a minimum wage at ₱1.25 for common laborers employed by the national government in the city of Manila and ₱1 for those of the provinces and chartered cities.
- Executive Order No. 107, dated August 24, 1937, designates the commissioner of health and welfare in collecting information desired by the permanent central opium board.
- Executive Order No. 118, dated September 16, 1937, creates the Philippine Sugar Administration Office.
- Executive Order No. 122, dated October 8, 1937, creates the national unemployment board.
- Executive Order No. 123, dated October 15, 1937, promulgates regulations to govern salvage work in the Philippines.
- Executive Order No. 125, dated October 25, 1937, creates a lighthouse board.
- Executive Order No. 126, dated November, 4 1937, makes the budget office the repository of all dormant supplies for issue to any branch of the service.
- Executive Order No. 127, dated November 9, 1937, creates an advisory abaca committee.
- Executive Order No. 130, dated November 20, 1937, amends Executive Order No. 61 creating the national relief board re expenditure of ₱1,500,000 appropriated by Act No. 90.
- Executive Order No. 134, dated December 30, 1937, proclaims the national language based on "Tagalog."
- Executive Order No. 135, dated December 31, 1937, establishes classification of roads—national, provincial, and municipal—and authorizes responsibility for maintenance.
- Executive Order No. 136, dated December 31, 1937, provides for additional airports and landing fields and classifies them.

APPENDIX VIII. OVERSEAS TRADE DURING THE PERIOD UNDER REVIEW

Imports.—The following comparative statement shows the principal imports of the years 1937 and 1936:

Articles	1937	1936	Increase (+), decrease (—)	Percent
Iron and steel and manufactures thereof.....	₱38,680,875	₱32,031,608	+₱6,649,267	20.76
Cotton goods.....	34,908,379	30,535,257	+4,373,122	14.32
Mineral oils.....	13,004,883	14,656,838	—1,651,955	11.27
Automobiles, parts of, and tires for.....	11,978,029	11,408,137	+569,892	5.00
Meat and dairy products.....	10,081,668	11,024,354	—942,686	18.55
Wheat flour.....	8,204,725	7,900,519	+304,206	3.85
Papers and manufactures thereof.....	7,621,198	6,442,647	+1,178,551	18.29
Tobacco products.....	7,340,246	7,130,860	+209,386	2.94
Electrical machinery, apparatus, and appliances.....	6,854,637	5,830,861	+1,023,776	17.56
Silk and rayon and manufactures thereof.....	6,195,701	5,764,409	+431,292	7.48
All other imports.....	73,181,149	69,526,859	+3,654,290	5.26
Total.....	218,051,490	202,252,349	+15,799,141	7.81

¹ Decrease.

Exports.—The following comparative statement shows the principal exports of the years 1937 and 1936:

Articles	1937	1936	Increase (+), decrease (—)	Percent
Sugar.....	P115, 412, 387	P123, 874, 644	—P8, 462, 257	¹ 6.83
Abaca.....	43, 279, 373	34, 177, 197	+9, 102, 176	26.63
Coconut oil.....	41, 051, 073	27, 743, 518	+13, 307, 555	47.97
Copra.....	31, 969, 399	29, 999, 568	+1, 969, 831	6.57
Gold bullion.....	27, 365, 429	20, 493, 158	+6, 872, 271	33.53
Desiccated coconut.....	12, 693, 263	8, 794, 125	+3, 899, 138	44.34
Tobacco products.....	9, 966, 216	10, 489, 566	—523, 350	¹ 4.99
Lumber.....	7, 886, 224	6, 199, 222	+1, 687, 002	27.21
Embroideries, cotton and silk.....	7, 377, 606	8, 549, 110	—1, 171, 504	¹ 13.70
Copra meal or cake.....	5, 800, 358	3, 659, 079	+2, 141, 279	58.52
All other exports.....	31, 120, 066	21, 371, 128	+9, 748, 938	43.62
Total.....	333, 921, 394	295, 350, 315	+38, 571, 079	13.06

¹ Decrease.

Foreign trade.—The following comparative statements show the monthly imports and exports of the Philippines during the years 1937 and 1936, resulting in a favorable balance of trade to this country in said years as follows:

TOTAL IMPORTS BY MONTHS

Month	Value		Increase (+) de- crease (—)
	1937	1936	
			<i>Percent</i>
January.....	P13, 634, 298	P19, 040, 253	—28.3
February.....	13, 875, 544	14, 919, 652	—6.9
March.....	25, 807, 287	17, 192, 315	+50.1
April.....	20, 035, 595	12, 910, 051	+55.1
May.....	16, 210, 845	14, 624, 503	+10.8
June.....	19, 094, 644	19, 184, 426	—4
July.....	19, 227, 046	14, 936, 619	+28.7
August.....	13, 748, 557	16, 861, 188	—19.0
September.....	16, 354, 896	20, 473, 570	—20.1
October.....	25, 231, 038	17, 499, 952	+44.1
November.....	16, 302, 051	12, 960, 363	+25.7
December.....	18, 628, 789	21, 649, 457	—13.9
Total.....	218, 051, 490	202, 252, 349	+7.8

TOTAL EXPORTS BY MONTHS

January.....	P25, 767, 765	P20, 585, 391	+25.1
February.....	27, 660, 883	29, 769, 760	—7.0
March.....	30, 957, 039	26, 978, 822	+14.7
April.....	31, 090, 739	30, 289, 180	+2.6
May.....	29, 305, 037	34, 582, 727	—15.2
June.....	32, 847, 606	30, 453, 973	+11.1
July.....	29, 401, 808	23, 096, 512	+27.2
August.....	31, 885, 090	16, 978, 545	+87.7
September.....	26, 144, 772	19, 713, 935	+32.6
October.....	20, 980, 090	15, 420, 413	+36.0
November.....	19, 722, 705	16, 542, 894	+19.2
December.....	27, 157, 860	30, 938, 163	—12.2
Total.....	¹ 333, 921, 394	¹ 295, 350, 315	+13.0
Total trade.....	551, 972, 884	497, 602, 664	+10.93
Balance of trade in favor of the Philippines.....	115, 869, 904	93, 097, 966	+24.46

¹ Gold included exports.

